



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Introduced	02/22/05	Bill No:	AB 1644
Tax:	Sales and Use	Author:	De La Torre
Related Bills:			

BILL SUMMARY

This bill would, among other things, repeal the sales and use tax exemption for purchases of farm equipment and machinery for use by a qualified person for producing and harvesting agricultural products, as specified and defined.

ANALYSIS

Current Law

Existing law, Section 6356.5 of the Sales and Use Tax Law, provides a state sales and use tax exemption for purchases of farm equipment and machinery and the parts thereof, used in producing and harvesting agricultural products. The exemption is provided to “qualified persons,” which includes any person engaged in a line of business described in Codes 0111 to 0291 of the Standard Industrial Classification Manual, and any other person that uses farm equipment and machinery to assist such persons in producing and harvesting agricultural products.

Standard Industrial Codes 0111 to 0291 essentially include establishments (e.g., farms, orchards, greenhouses, nurseries) primarily engaged in the production of crops, plants, vines, and trees, and establishments (e.g., farms, ranches, dairies, feedlots, egg production facilities, broiler facilities, poultry hatcheries, apiaries) primarily engaged in the keeping, grazing, or feeding of livestock for the sale of livestock or livestock products.

Proposed Law

This bill would, effective immediately upon enactment, repeal Section 6356.5 of the Sales and Use Tax Law which provides a state sales and use tax exemption for purchases of farm equipment and machinery, and the parts thereof, purchased by qualified persons, as defined.

The bill would also make changes to the Personal Income Tax Law and the Corporations Tax Law, which would fall under the purview of the Franchise Tax Board.

Background

Section 6356.5 of the Sales and Use Tax Law was added by AB 426 (Stats. 2001, Ch. 156) and became effective September 1, 2001. This exemption was contained in a budget trailer bill implementing various provisions incorporated into the 2001-02 Budget. In addition to this exemption, that budget trailer bill had several other agricultural-related exemptions, including an exemption for purchases of liquefied petroleum gas for certain household and farm use, diesel fuel used on farms and in transporting agricultural

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board’s formal position.

products to the marketplace, racehorse breeding stock, and timber harvesting equipment.

COMMENTS

1. **Sponsor and purpose.** The bill is sponsored Assembly Member De La Torre. According to the author's office, the bill has been introduced to repeal this exemption in order to maximize our state's resources with the revenues lost as a result of this exemption.
2. **Bill would not be problematic to administer.** In fact, enactment of this measure would simplify tax administration, as exemptions tend to complicate administration of the tax laws. However, it is recommended that the Board be given sufficient lead time with which to notify affected retailers. Otherwise, retailers making sales of this equipment may not have the opportunity to reimburse themselves for the tax on sales made in between the time the bill is enacted and the time they receive "official" notification from the Board of its repeal. A minimum of 30 days is recommended, and preferably on the first day of the month.

COST ESTIMATE

Administrative costs would be incurred in notifying affected retailers, changing the regulation, and answering inquiries. These costs would be insignificant (less than \$10,000).

REVENUE ESTIMATE

For fiscal year 2003-04, sales and use tax exemptions claimed on farm equipment and machinery amounted to \$78.2 million. Therefore, enactment of this measure would increase the state revenues by approximately \$78.2 million annually.

Analysis prepared by:	Sheila T. Sarem	445-6579	04/25/05
Contact:	Margaret S. Shedd	322-2376	

1644-1ss.doc

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.